



ATTORNEYS AND COUNSELORS AT LAW

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February 21, 2006

VIA E-FILING & HAND DELIVERY

Mary Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

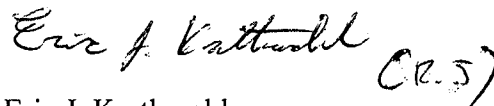
Re: Milford Water Company, D.T.E. 05-97

Dear Secretary Cottrell:

Enclosed for filing please find Milford Water Company's responses to the Department's Record Requests DTE-RR-1 and DTE-RR-2.

Any questions on this matter should be directed to the undersigned.

Sincerely,

The handwritten signature of Eric J. Krathwohl, with the initials "C.R.S." written to the right.

Eric J. Krathwohl

Enclosures

cc: John J. Geary, Hearing Officer  
Stephen Crowley, Analyst – Rates and Revenue Requirements Division  
James Byrnes, Analyst – Rates and Revenue Requirements Division  
Henry C. Papuga  
Gerald Moody, Esq.

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MILFORD WATER COMPANY

D.T.E. 05-97

RECORD REQUESTS OF THE DEPARTMENT OF  
TELECOMMUNICATIONS AND ENERGY TO  
MILFORD WATER COMPANY

Respondent: Henry C. Papuga  
Response Date: February 21, 2006

DTE-RR-1 Please identify the original principal amount of the senior note issued by the Company in 1992.

**Response: The 9.10% Senior Note was issued July 30, 1992 in a total principal amount of \$1,750,000. Such note is due June 15, 2012.**

MILFORD WATER COMPANY

D.T.E. 05-97

RECORD REQUESTS OF THE DEPARTMENT OF  
TELECOMMUNICATIONS AND ENERGY TO  
MILFORD WATER COMPANY

Respondent: Henry C. Papuga  
Response Date: February 21, 2006

DTE RR-2 Provide copies of the provisions in the documentation relating to the 9.10% Senior Notes that impose some restrictions upon the Company's issuance of additional debt.

**Response:** See Attachment DTE RR-2a, which is a copy of sections 5.6 and 5.7 of the Note Agreement governing the Senior Note. Those sections provide limitations on what long term debt the Company can issue and what liens the Company can allow on its assets while the Senior Note is outstanding. As discussed at the hearing, particularly with respect to assets acquired by the Company after the issuance of the Senior Note, the Company need only comply with the financial tests provided in section 5.6 (e.g. Company debt not exceeding 60% of total capitalization after issuance of such debt and historical net income available for fixed charges equaling or exceeding 150% of pro forma fixed charges). Attachment DTE RR-2b shows the Company's satisfaction of such financial tests. In that circumstance, there is no language in the Note Agreement that requires the consent of the current holder of the Senior Note.

MILFORD WATER COMPANY

NOTE AGREEMENT

Dated as of July 1, 1992

Re: \$1,750,000 9.10% Senior Notes  
Due June 15, 2012

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materials, which if unpaid might become a Lien upon any property of the Company or such Subsidiary; *provided* the Company or such Subsidiary shall not be required to pay any such tax, assessment, charge, levy, account payable or claim if (i) the validity, applicability or amount thereof is being contested in good faith by appropriate actions or proceedings which will prevent the forfeiture or sale of any property of the Company or such Subsidiary or any material interference with the use thereof by the Company or such Subsidiary, and (ii) the Company or such Subsidiary shall set aside on its books, reserves deemed by it to be adequate with respect thereto. The Company will promptly comply and will cause each Subsidiary to promptly comply with all laws, ordinances or governmental rules and regulations to which it is subject including, without limitation, M.G.L.A. c. 164 and c. 165, to the extent applicable to water companies, the Occupational Safety and Health Act of 1970, as amended, ERISA and all laws, ordinances, governmental rules and regulations relating to environmental protection in all applicable jurisdictions, the violation of which would materially and adversely affect the properties, business, prospects, profits or condition of the Company and its Subsidiaries or would result in any Lien not permitted under §5.7.

**Section 5.4. Maintenance, Etc.** The Company will maintain, preserve and keep, and will cause each Subsidiary to maintain, preserve and keep, its properties which are used or useful in the conduct of its business (whether owned in fee or a leasehold interest) in good repair and working order and from time to time will make all necessary repairs, replacements, renewals and additions so that at all times the efficiency thereof shall be maintained, all in accordance with industry standards.

**Section 5.5. Nature of Business.** Neither the Company nor any Subsidiary will engage in any business if, as a result, the general nature of the business, taken on a consolidated basis, which would then be engaged in by the Company and its Subsidiaries would be substantially changed from the storage, transmission and sale of water for domestic, industrial and commercial uses, and activities related thereto.

**Section 5.6. Limitations on Funded Debt.** (a) The Company will not, and will not permit any Subsidiary to, create, assume or incur or in any manner become liable in respect of any Funded Debt, except:

- (1) Funded Debt evidenced by the Notes;
- (2) Funded Debt of the Company outstanding as of the date of this Agreement and reflected in Annex I to Exhibit B hereto;
- (3) unsecured Senior Funded Debt of the Company and Funded Debt of the Company and its Subsidiaries secured by Liens permitted by §5.7(g), *provided* that at the time of issuance thereof and after giving effect thereto and to the application of the proceeds thereof:

(i) Consolidated Funded Debt shall not exceed 60% of Total Capitalization, and

(ii) the Net Income Available for Fixed Charges for any consecutive 12 month period during the 15 calendar months immediately preceding any date of determination shall equal or exceed 150% of Pro Forma Fixed Charges for such 12 month period; and

(4) Subordinated Funded Debt of the Company.

(b) Any corporation which becomes a Subsidiary after the date hereof shall for all purposes of this §5.6 be deemed to have created, assumed or incurred at the time it becomes a Subsidiary all Funded Debt of such corporation existing immediately after it becomes a Subsidiary.

*Section 5.7. Limitation on Liens.* The Company will not, and will not permit any Subsidiary to, create or incur, or suffer to be incurred or to exist, any Lien on its or their property or assets, whether now owned or hereafter acquired, or upon any income or profits therefrom, or transfer any property for the purpose of subjecting the same to the payment of obligations in priority to the payment of its or their general creditors, or acquire or agree to acquire, or permit any Subsidiary to acquire, any property or assets upon conditional sales agreements or other title retention devices, except:

(a) Liens for property taxes and assessments or governmental charges or levies and Liens securing claims or demands of mechanics and materialmen, *provided* that payment thereof is not at the time required by §5.3;

(b) Liens of or resulting from any judgment or award, the time for the appeal or petition for rehearing of which shall not have expired, or in respect of which the Company or a Subsidiary shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall have been secured;

(c) Liens incidental to the conduct of business or the ownership of properties and assets (including Liens in connection with worker's compensation, unemployment insurance and other like laws, warehousemen's and attorneys' liens and statutory landlords' liens) and Liens to secure the performance of bids, tenders or trade contracts, or to secure statutory obligations, surety or appeal bonds or other Liens of like general nature incurred in the ordinary course of business and not in connection with the borrowing of money, provided in each case, the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate actions or proceedings;

(d) survey exceptions or encumbrances, easements or reservations, or rights of others for rights-of-way, utilities and other similar purposes, or zoning or other restrictions as to the use of real properties, which are necessary for the conduct of the activities of the Company and its Subsidiaries or which customarily exist on properties of corporations engaged in similar activities and similarly situated and which do not in any event materially impair their use in the operation of the business of the Company and its Subsidiaries;

(e) Liens securing Indebtedness of a Subsidiary to the Company or to another Subsidiary;

(f) Liens existing as of June 15, 1992 and reflected in Annex I of Exhibit B; and

(g) Liens incurred after the Closing Date given to secure the payment of the purchase price or project development costs incurred in connection with the acquisition or development of fixed assets useful and intended to be used in carrying on the business of the Company or a Subsidiary, including Liens existing on such fixed assets at the time of acquisition thereof or at the time of acquisition by the Company or a Subsidiary of any business entity then owning such fixed assets, whether or not such existing Liens were given to secure the payment of the purchase price of the fixed assets to which they attach so long as they were not incurred, extended or renewed in contemplation of such acquisition, *provided* that (i) at the time of acquisition or development of such fixed assets, the aggregate amount remaining unpaid on all Indebtedness secured by Liens on such fixed assets whether or not assumed by the Company or a Subsidiary shall not exceed an amount equal to 65% (or 100% in the case of Capitalized Leases) of the lesser of the total purchase price, cost of development or fair market value at the time of acquisition or development of such fixed assets (as determined in good faith by the Board of Directors of the Company), and (ii) all such Indebtedness shall have been incurred within the applicable limitations provided in §5.6.

*Section 5.8. Limitation on Sale and Leasebacks.* The Company will not, and will not permit any Subsidiary to, enter into any arrangement whereby the Company or any Subsidiary shall sell or transfer any property owned by the Company or any Subsidiary to any Person other than the Company or a Subsidiary and thereupon the Company or any Subsidiary shall lease or intend to lease, as lessee, the same property unless, after giving effect thereto, the aggregate book value of all such property so leased or intended to be leased shall not exceed 5% of Tangible Assets, determined as of the end of the immediately preceding fiscal year.

*Section 5.9. Restricted Payments.* The Company will not except as hereinafter provided:

(a) Declare or pay any dividends, either in cash or property, on any shares of its capital stock of any class (except dividends or other distributions payable solely in shares of capital stock of the Company);

(b) Directly or indirectly, or through any Subsidiary, purchase, redeem or retire any shares of its capital stock of any class or any warrants, rights or options to purchase or acquire any shares of its capital stock (other than in exchange for or out of the net cash proceeds to the Company from the substantially concurrent issue or sale of other shares of capital stock of the Company or warrants, rights or options to purchase or acquire any shares of its capital stock); or



## **MILFORD WATER COMPANY**

66 Dilla Street • Milford, Massachusetts 01757-1104  
www.milfordwater.com • 508-473-5110 • fax 508-478-7997

December 27, 2005

Genworth Financial  
Private Placements  
601 Union Street, Suite 2200  
Seattle, WA 98101-2336

Attention: Tamzin M. Anderson  
Investment Analyst

Re: Milford Water Company, 9.10% Senior Notes, due 2012 (the "2012 Notes")

Dear Ms. Anderson:

Further to recent conversations between representatives of Milford Water Company (the "Company") and you, this letter is to formally notify Genworth as holder of the 2012 Notes and to seek Genworth's consent to the Company's issuance of additional funded debt. Such debt would be issued in the amount of \$1,000,000 as 10-year term promissory notes, bearing an interest rate of 6.75% and would be secured (the "Secured Notes"). As was the case with Genworth, major institutions were not interested in purchasing the notes, so the Company's options were limited and those options generally required security.

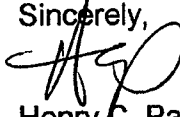
We observe that long term secured and unsubordinated debt may be issued without violating the 2012 Note Agreement in certain circumstances. Specifically, the Company may, without consent of the Noteholder, issue additional debt securities that are secured by a lien if: (a) the Company's Consolidated Funded Debt after the issuance does not exceed 60% of Consolidated Capitalization and (b) if the Net Income available for fixed charges for 12 of the last 15 months is greater than or equal to 150% of the pro forma fixed charges. The attached schedules show how each of these financial tests is satisfied. The only other requirement of the Note Agreement is that the lien on such debt was "given to secure the payment of ... project development costs incurred in connection with the acquisition or development of fixed assets useful and intended to be used in carrying on the business of the Company..." Section 5.7(g). In this case, the ultimate purpose of the funding is the "terming out" of



debt incurred as various projects useful for the Company's service were being constructed. Such financing is necessary for the Company to be able to maintain reliable and efficient service to its customers.

For these reasons the Company believes that the pre-conditions for the issuance of the proposed debt have been satisfied. However, to avoid any questions about compliance, we are seeking Genworth's consent to such financing. Kindly have an authorized officer sign below to document Genworth's consent to the Company's issuance of the Secured Notes.

cc: E. Krathwohl, Rich May, PC  
attach.

Sincerely,  
  
Henry C. Papuga, Manager  
Milford Water Company

Agreed and consented to this \_\_\_\_ day of \_\_\_\_\_, 2005.

GENWORTH FINANCIAL

By: \_\_\_\_\_  
Its \_\_\_\_\_

**CAPLICE, CIARAMICOLI & DOYLE LLP**  
Certified Public Accountants and Business Advisors

December 27, 2005

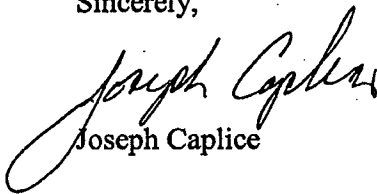
Henry Papuga  
Milford Water Company  
66 Dilla Street  
Milford, MA 01757

Dear Henry:

Please see enclosed worksheets we prepared in connection with your request regarding the loan covenants related to the Milford Water Company, 9.10% Senior Notes due 2012.

Please do not hesitate to call me with any questions regarding the calculations.

Sincerely,



Joseph Caplice

Milford Water Company  
Loan Covenant Test

12/31/04

Consolidated Net Tangible Assets

1. Tangible Assets

Total assets 15,647,983

Less:

Unamortized debt discount  
Other deferred charges

26,715  
40,743 67,458

Tangible Asset Total

15,580,525

2. Total Liabilities

15,647,983

Less:

Deferred income taxes 682,361  
Investment tax credits 71,189  
Class A common 100,000  
Class B common 274,100  
Common stock 400,000  
Additional Paid in 33,440  
Retained earnings 6,249,058

Consolidated funded debt

Line of credit 450,000

Long term debt & current portion 1,566,000

2,016,000 9,826,148

Adjusted Liabilities

5,821,835

Consolidated Net Tangible Assets

9,758,690

Consolidated Funded Debt

Line of credit

450,000

Long term debt & current portion

1,566,000 2,016,000

Total Capitalization

Consolidated funded debt

2,016,000

Consolidated Tangible net worth

6,989,140

9,005,140

Consolidated Tangible Net Worth

Consolidated Net Tangible Assets

9,758,690

Less:

Consolidated funded debt  
Deferred taxes  
Investment tax credits

-2,016,000

-682,361

-71,189

Consolidated Tangible Net Worth

6,989,140

Capitalization Test

Consolidated Funded Debt shall not exceed 60% of Capitalization.

Total Capitalization

9,005,140

Consolidated Funded Debt

2,016,000

New Notes to assume

1,000,000

3,016,000

Passed test

33.49%

Net Income Coverage test

Net Income Available for Fixed Charges

Net Income

12/31/04

339,820

Add:

Federal and State Taxes

282,330

Interest expense

140,890

Net Income Available for Fixed Charges

763,040

Pro Forma Fixed charges

Senior debt fixed charge for 2005

226,843

New debt

82,909

309,752

Coverage %

Passed test

246%

**Milford Water Company**  
**Loan Covenant Test**

09/30/05

**Consolidated Net Tangible Assets**

**1. Tangible Assets**

Total assets 17,282,307

**Less:**

Unamortized debt discount 24,044  
 Other deferred charges 38,726 62,770

Tangible Asset Total 17,219,537

**2. Total Liabilities & Equity**

17,282,307

**Less:**

Deferred income taxes 673,360  
 Investment tax credits 63,936  
 Class A common 100,000  
 Class B common 274,100  
 Common stock 400,000  
 Additional Paid in 33,440  
 Retained Earnings 6,557,537

Consolidated funded debt  
 Line of credit 650,000  
 Long term debt & current portion 1,487,500 2,137,500 10,239,873  
 7,042,434

**Consolidated Net Tangible Assets**

10,177,103

**Consolidated Funded Debt**

Line of credit 650,000  
 Long term debt & current portion 1,487,500 2,137,500

**Total Capitalization**

Consolidated funded debt 2,137,500  
 Consolidated Tangible net worth 7,302,307  
 9,439,807

**Consolidated Tangible Net Worth**

Consolidated Net Tangible Assets 10,177,103

**Less:**

Consolidated funded debt -2,137,500  
 Deferred taxes -673,360  
 Investment tax credits -63,936

**Consolidated Tangible Net Worth**

7,302,307

**Capitalization Test**

Consolidated Funded Debt shall not exceed 60% of Capitalization.

Total Capitalization 9,439,807

Consolidated Funded Debt 2,137,500  
 New Notes to assume 1,000,000 3,137,500

Passed test 33.24%

**Net Income Coverage test**

**Net Income Available for Fixed Charges**

Net Income 09/30/05 364,525  
 Add:  
 Federal and State Taxes 226,182  
 Interest expense 127,768

Net Income Available for Fixed Charges 718,475

**Pro Forma Fixed charges**

Senior debt fixed charge for 2006 218,881  
 New debt 82,909  
 301,790

Net Income Coverage Test Passed test

238%